ATTORNEY GENERAL; MINISTER FOR COMMERCE

Senate Economics Committee

24 FEB 2015

Our Ref: 44-14471

Committee Secretariat
Senate Standing Committees on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Sir/Madam

SENATE ECONOMICS REFERENCES COMMITTEE INQUIRY INTO THE FUTURE OF AUSTRALIA'S NAVAL SHIPBUILDING INDUSTRY

I have pleasure in attaching Western Australia's Submission to this important Inquiry.

Could I take this opportunity to thank the Committee in allowing Western Australia additional time to present its Submission.

As was the case in previous Senate Inquiries into naval shipbuilding in 2007, Western Australia looks forward to working collaboratively with the Committee as it addresses all aspects of the Inquiry process leading to its Final Report.

For any matters of clarification in relation to the Submission I would nominate Mr John O'Hare, General Manager, Marine and Defence, Department of Commerce,

Yours sincerely

Hon. Michael Mischin MLC
ATTORNEY GENERAL; MINISTER FOR COMMERCE

Att.

20 FEB 2015

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Submission by the Hon Michael Mischin, MLC, Minister for Commerce

On behalf of the State Government of Western Australia

To the Inquiry by the Senate Economics References Committee into the future of Australia's naval shipbuilding industry

Government of **Western Australia**
Department of **Commerce**

NAVAL SHIPBUILDING SENATE INQUIRY SUBMISSION
SUPERBLOCK CONCEPT

On 25 June 2014 the Senate referred an Inquiry into the future sustainability of Australia's strategically vital naval shipbuilding industry to the Senate Economics References Committee for inquiry and report by 1 July 2015. The inquiry consists of two Parts and the Government of Western Australia will be addressing Part II.

Introduction

The Western Australian Government has an interest in the future sustainability of the Australian naval shipbuilding industry as the State has significant fabrication, engineering and common use infrastructure capability suitable for both building and maintaining naval vessels. Both the private and public sectors in Western Australia have invested heavily in capability suitable for playing a role in naval shipbuilding and maintenance.

In particular, the Australian Marine Complex (AMC) at Henderson in Western Australia was developed by the State Government to be a world class Centre of Excellence for manufacturing, fabrication assembly and maintenance and technology activities to service the defence, marine and resource industries. The capability of the AMC for naval shipbuilding and repair are outlined later in the Submission. With a number of the State's major resource projects transitioning from a construction to operational phase naval shipbuilding and maintenance projects provide opportunities for local fabricators and ship maintenance companies outside of the resources sector.

Significant naval contracting work is currently undertaken in Western Australia. The State acknowledges the value and importance of this capability to the Commonwealth.

This Submission highlights the important role that current and future AMC infrastructure plays in supporting Defence in Western Australia. It also highlights the benefits to the Commonwealth of introducing the internationally competitive skills and infrastructure of WA industry into the naval shipbuilding industry, the SuperBlock concept. This role and the State's SuperBlock concept are outlined in the Submission.

Background

Over the last two decades construction of naval vessels for the Royal Australian Navy (RAN), for example, ANZAC frigates, COLLINS Class submarines, mine-hunters and the rebuild of other RAN vessels have sustained a viable naval shipbuilding industry in Australia.

More recent naval shipbuilding endeavours, the SEA 4000–Air Warfare Destroyer (AWD) Program is one of the largest acquisitions undertaken by the Department of Defence (Defence) for RAN at a budgeted cost of some $8.5 billion. The Program will deliver three Hobart-class Guided Missile Destroyers (DDGs) that will replace the RAN's four remaining Adelaide-class Guided Missile Frigates (FFGs). Each DDG is comprised of 31 blocks (or ship sections) constructed via a distributed-build process at four shipyards in Australia and overseas.

Successive Australian governments have accepted that building the DDGs in Australia would involve a premium over and above the cost of building them overseas. The decision to build locally is based on a desire to retain shipbuilding jobs and facilities, project management and design skills, and experience with sophisticated naval combat systems, so as to enable through-life support of the DDGs in Australia and a continuing naval shipbuilding industry. As part of the June 2007 Second Pass submission to the Commonwealth Government, the Treasury noted that the premium associated with building the DDGs in Australia was around $1 billion, representing an effective rate of assistance of over 30 per cent for naval shipbuilding.

Despite the contractual arrangements put in place to manage the project, the AWD Program has experienced a range of delivery issues, including significant immaturity in detailed design documentation, major block construction problems and substantially lower than anticipated construction productivity. The design and construction issues have led to extensive, time-consuming and costly rework on the DDGs.

The major naval shipbuilders and the Amalgamated Metal Workers Union (AMWU) have been campaigning for over a year that Australian naval shipbuilding industry faces a "valley of death" as existing naval build contracts come to close and no new projects are imminent. The naval shipbuilding industry and the AMWU are claiming that skills and capability will be lost to the defence shipbuilding industry unless new naval build programs are brought forward by the Commonwealth Government.

The then Minister for Defence, the Hon David Johnston, on 6 June 2014 announced that the replacement vessels for *HMAS Sirius* and *HMAS Success* will be undertaken overseas based on existing designs.

The then Minister stated that the "Navy is in urgent need of large support vessels that … are beyond the capacity of Australia to produce competitively at this stage."

Senator Johnston also announced the first initiatives in the Commonwealth Government's long-term strategic naval plan. This plan will provide for an enterprise level shipbuilding plan that will bring together naval capability requirements, available resources and recommendations around Australian industry requirements.

Although there are significant difficulties in the Australian naval shipbuilding industry the Western Australian Government acknowledges that there are opportunities for local industry arising from Australian naval shipbuilding projects including the future frigate program and the new submarine program.

However, the Australian naval shipbuilding industry has been put on notice by the then Defence Minister that the current low productivity of shipbuilders involved in the AWD Program and value for money consideration is seeing the industry at a critical crossroads.

The Federal Government wants to stop the cycle of cost blow outs and delays in the Australian naval shipbuilding industry.

Senator Johnston has also announced as part of its 2015 Defence White Paper the Government will announce further steps in its Naval Capability Plan.

The Naval Capability Plan and the current unsustainable model for the Australian naval shipbuilding industry offer opportunities for Western Australia.

Australian Marine Complex (AMC)

The State Government established the Australian Marine Complex (AMC) - Common Use Facility (CUF) at Henderson WA in 2003. The AMC-CUF has been an outstanding success, providing infrastructure and facilities for the defence, oil and gas, marine and resources sector on an 'as required' basis. In addition to providing cost competitive infrastructure and facilities for the users, the CUF has been the catalyst for a wide range of businesses to be attracted to the adjacent industrial precincts. Since its opening in July 2003, the AMC-CUF has delivered more than 373 major projects worth in excess of $1.75 billion and generated more than 26,700 jobs.

The AMC is an integrated industrial estate with its creation driven by an opportunity to create an innovative industry hub which would service an existing shipbuilding industry while creating facilities to help maximise economic benefits form the surge in resources activity. Located at Henderson, adjacent to Fleet Base West, the area was already an important hub for marine related industries servicing domestic and international markets.

The development of the AMC-CUF was a State initiative that was supported by the Federal Government through an $80 million contribution. The State subsequently invested a further $170 million to provide infrastructure to primarily service the requirements of the RAN. This infrastructure included power upgrades, a new wharf, wharf services, Stage 1 of a Floating Dock and a multi-wheeled transporter system.

Stage 1 of the Floating Dock is the first part of a two part dock. The design foresaw the possibility of approvals at different times and is therefore ensured that each part could operate independently as an integrated unit. Stage 1, Stage 2 and the combination of both deliver different and increasing capacity to support RAN vessels and submarines in WA.

Stage 1 of the Floating Dock is rated at 12,000 tonnes and the wheeled transporters are rated at 4,500 tonnes. The State funded infrastructure enables ANZAC Frigates and COLLINS Class Submarines based at Fleet Base West to be lifted and transferred to hardstand areas for maintenance upgrades and repair activities by local industry.

Currently all WA based RAN vessels, except the support ship HMAS Sirius, can be docked in WA, although, in the near future, this will not be the case. The following classes of RAN vessels will not be able to be docked on the West Coast:

1. Canberra Class Landing Helicopter Dock (LHD)
2. Hobart Class Air Warfare Destroyer (AWD)
3. HMAS Choules
4. Replacement naval supply ships
5. Future frigates
6. Future Offshore combatant Vessels (OCV)

Whilst it is acknowledged that a number of these classes and vessels will be home ported at Fleet Base East the ability to dock them on the West Coast gives a strategic advantage to the RAN.

Most of the infrastructure required for larger docking operations at the AMC is already complete. The 18 metre deep sink pocket is already dredged to accommodate the full length of the combined docks. Stage 2 of the Floating Dock has been designed and costed.

Recommendations

1. The Government of Western Australia recommends that the Commonwealth Government through the Department of Defence invests in Stage 2 of the Floating Dock to provide docking capability on the West Coast for the above new classes of vessel it has planned.

2. The RAN should expand wharf capacity and support facilities at Fleet Base West to:

    a. Support major new surface combatant capability and operations
    b. Provide adequate infrastructure and facilities, including missile loading to homeport Future Frigate class and forward deploy at least one AWD
    c. Ensure such facilities are also able to be used for deployments and operations in Southeast Asia and the Indian Ocean by United States Navy (USN)
    d. Enable Fleet Base West to continue as the submarine homeport when the expanded Future Submarine fleet enters service

Expansion of Fleet Base West's wharf capacity and support facilities will be necessary for it to meet the increased demands of Force 2030 involving new submarines and frigates, and as a forward deployment base for the AWD. Developing missile loading and guided ordnance maintenance facilities at Fleet Base West would be advantageous for sustaining operations and supporting training activities. Expanded wharf capacity and support facilities could also support USN vessels.

Western Australia's SuperBlock Concept

Western Australia has traditionally been a provider of shipbuilding and naval defence industry capability. Through the AMC significant State owned infrastructure facilities are available for naval defence contracting.

The AMC has been a significant industrial capability partner with the RAN based at Garden Island to provide repair and maintenance to the COLLINS Class submarines and ANZAC Class frigates.

Over $400 million has been invested in common use infrastructure by the State Government in the AMC to ensure infrastructure is available for Western Australia to be competitive for the in-service support for naval acquisitions, including maintenance, repair, upgrades and builds.

The State has had a consistent theme that for the Australian naval shipbuilding capability to remain viable it should be embedded in a broader industry base, that base must have compatible management structures, skills and infrastructure sustained by non-defence business. The SuperBlock Concept continues the State's theme.

The Concept aims to highlight the industry capability in Western Australia's resource-based heavy engineering sector that would result in increased productivity, international best practice and value for money for the Australian naval shipbuilding industry. The Concept aims to introduce the internationally competitive skills and infrastructure capabilities of Western Australian industry into the naval shipbuilding industry and major naval ship acquisition programs.

The productivity of Western Australian companies in the resource sector has enabled them to win work against strong international competition. This capability, combined with the State Government owned common use facilities, provides a flexible approach to the demands of the Defence acquisition program.

The overall benefit of the SuperBlock Concept is to bring Australian shipbuilding industry in line with international best practice and increase the ability of Australian industry to compete and meet innovative Defence requirements.

The SuperBlock Concept

The SuperBlock Concept allows Australian Naval ships to be built in Australia by nominated industry proponents and a consolidating shipyard. Each vessel will comprise a number of 'SuperBlocks' that will be 4-6 times larger than the current size of the current modules built for the AWD Programs.

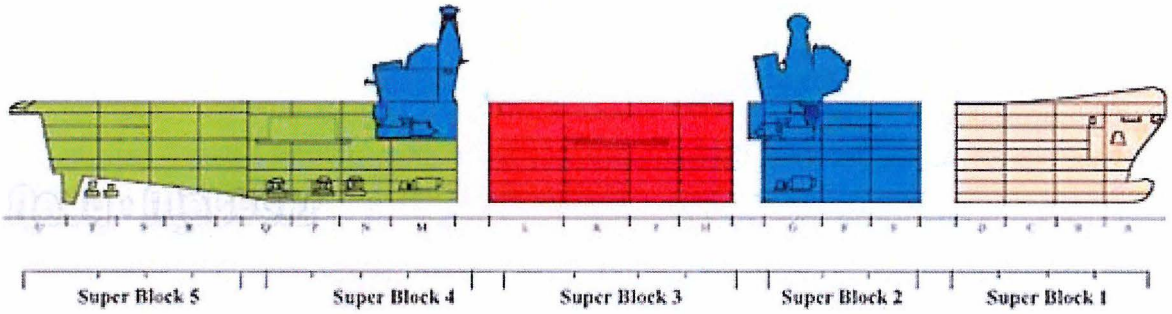

Figure 1 SuperBlock Example

These 'SuperBlocks' will have a greater level of outfit/pre-commissioning completed when delivered to the consolidating shipyard which will reduce the work undertaken in the consolidating shipyard. This will reduce build cycle time in the shipyard and assist the Federal Government in balancing fiscal, defence and industry pressures in acquisition planning.

The SuperBlock Concept will enable a step change in the construction methodology of future naval building programs to take place.

SuperBlocks reduce the number of modules to be consolidated at the shipyard. This means that more responsibility is passed to the block builder for module fit-up; reduce time on the building berth and bring forward full system testing and commissioning.

The Benefit to the Commonwealth Government

It brings Australian shipbuilding industry in line with international best practice and increase the ability of Australian industry to compete and meet Defence requirements.

The reduction in build cycle time in the shipyard which will improve value for money and assist the Federal Government in balancing fiscal, defence and industry pressures in acquisition planning.

It will open up defence contracts to greater industry competition while maintaining the in-country skills to support national security needs.

The Commonwealth will be contracting with companies whose commercial viability is not dependent on defence work alone.

The Commonwealth will be contracting with companies that have honed their operations to compete and win complex and highly regulated projects against international competition.

It will utilise existing defence contracting skills embedded in the business community at both contractor and sub-contractor level engaged on Collins, ANZAC and Auxiliary Ship support.

It will use industry capability and common use infrastructure ensures overhead recovery is spread across many non-defence projects.

The Concept will bring:

- Australian shipbuilding industry in line with international best practice and increase the ability of Australian industry to compete.
- Increased competitiveness to the Australian shipbuilding industry.
- Increased infrastructure best practice to the naval shipbuilding industry.

Conclusion

The State recommends that, in assessing the sustainability of naval shipbuilding and repair in Australia the Senate Committee bear in mind:

- The significant benefit to the Commonwealth Government of the SuperBlock Concept.
- The flexibility and scale of the Western Australian fabrication, shipbuilding and engineering industry.
- Available marine infrastructure particularly the capability of the AMC.
- The contribution of current and future docking infrastructure to the preparedness of naval ships home ported in Fleet Base West.
- The importance of supportive policies and enabling investments by governments at both State and Commonwealth levels in establishing and maintaining that infrastructure.